United Nations A/59/326

General Assembly

Distr.: General
2 September 2004

Original: English

Fifty-ninth session
Item 91 (a) of the provisional agenda*
Eradication of poverty and other development issues: implementation of the first United Nations Decade for the Eradication of Poverty (1997-2006)

Implementation of the first United Nations Decade for the Eradication of Poverty (1997-2006) and preparations for the International Year of Microcredit, 2005

Report of the Secretary-General**

Summary

Section I of the present report responds to General Assembly resolution 58/222 of 23 December 2003 on the implementation of the first United Nations Decade for the Eradication of Poverty (1997-2006), in which the Secretary-General was requested to submit to the Assembly at its fifty-ninth session a report on the implementation of that resolution. In view of the upcoming observance of 2005 as the International Year of Microcredit, this report focuses on the contribution of microcredit and microfinance to the implementation of the Decade. It examines the role that microcredit and microfinance can play in strategies to eradicate poverty, the challenges facing their future development and the role of Governments and the international community in providing poor people with greater access to financial services.

* A/59/150.

** The submission of the present report was delayed in order to incorporate the responses from as many Member States as possible. Section II of the report was prepared in collaboration with United Nations Capital Development Fund.

04-49915 (E) 071004

Section II, in response to General Assembly resolution 58/221 of 23 December 2003, in which the Secretary-General was requested to submit to the Assembly at its fifty-ninth session a report on the preparations for the International Year of Microcredit, 2005, discusses the preparations already under way, and highlights the key initiatives and activities to mark the Year planned by Governments, the United Nations system and other stakeholders.

The concluding section offers some recommendations.

Contents

		Paragraphs	Page
I.	Contribution of microcredit and microfinance to poverty eradication	1–32	4
	A. Introduction	1–2	4
	B. Background	3–6	4
	C. Microcredit, microfinance and the achievement of the Millennium Development Goals	7–21	5
	D. Challenges	22–32	8
II.	Preparations for the International Year of Microcredit, 2005	33–66	10
	A. Introduction	33–34	10
	B. Institutional arrangements	35	11
	C. Communication and promotional activities	36–40	11
	D. National activities	41–50	12
	E. Activities of the United Nations system	51–63	16
	F. Activities of other partners	64–66	19
III.	Recommendations	67–68	20

I. Contribution of microcredit and microfinance to poverty eradication

A. Introduction

1. In view of the upcoming observance of 2005 as the International Year of Microcredit, the present report responds to General Assembly resolution 58/222 of 23 December 2003 on the implementation of the first United Nations Decade for the Eradication of Poverty (1997-2006) through the lens of microcredit and microfinance. By focusing on the contribution of microcredit and microfinance to poverty eradication, this report highlights the increasing recognition of the important role they can play in strategies to eradicate poverty — a view underscored in Assembly resolution 58/222, in which the Assembly recognized that microcredit and microfinance could play a crucial role in the eradication of poverty, the promotion of gender equality, the empowerment of vulnerable groups and the development of rural communities. It is also envisaged that this theme will serve to promote greater awareness of microcredit and microfinance among Member States, United Nations organizations, the private sector, non-governmental organizations, microfinance institutions and other stakeholders, and prepare the way for the observance of the Year.

2. This report provides a brief overview of the contribution of microcredit and microfinance to poverty reduction and the achievement of the Millennium Development Goals. It examines the challenges to the future growth, expansion and outreach of the microfinance sector, and discusses the policies and programmes needed to provide greater access by poor people to microcredit and microfinance, and to promote sustainable microfinance institutions. The report builds on previous reports to the General Assembly on the subject, including chapter VII entitled "Bringing financial services to the poor" in *World Economic and Social Survey, 1999*,[1] the report of the Secretary-General entitled "Role of microcredit in the eradication of poverty" (A/53/223 and Add.1) and technical note No. 10 entitled "Existing proposals on strategies for expanding access to microcredit and in assisting current microcredit beneficiaries in gaining access to the formal domestic banking sector" (A/AC.257/27/Add.10), submitted to the Preparatory Committee for the International Conference on Financing for Development at its resumed third session, 15-19 October 2001.

B. Background

3. Microfinance can be broadly defined as the provision of small-scale financial services such as credit, savings and other basic financial services to poor and low-income people. The term "microfinance institution" now refers to a wide range of organizations dedicated to providing these services and includes non-governmental organizations, credit unions, cooperatives, private commercial banks, non-bank financial institutions and parts of State-owned banks.

4. While most countries have had long experience with informal community-based financial systems, microfinance — the commercial supply of financial services to poor populations — is a recent trend. In general, poor people have been denied adequate access to credit for a variety of reasons, notably, lack of collateral,

the perception that poor people are bad credit risks, and the typically higher unit transaction costs for small loans. This conventional wisdom was challenged with the introduction during the 1970s of successful microcredit experiments in Latin America and South Asia.[2]

5. As initially conceived, microcredit initiatives had a lending focus, usually in the range of US$ 50-US$ 1,000, typically secured through the mutual guarantee of solidarity groups. Such loans were used for various purposes including investments in microenterprises or small business ventures, agricultural production and improvements, livestock purchases and trading activity. Most of the clients were female heads of households, pensioners, displaced persons, retrenched workers, small farmers, and microentrepreneurs. In an overwhelming number of cases, poor people demonstrated that they were creditworthy and loan repayment rates were high despite their lack of collateral. These low default rates relative to the interest rates charged contributed to the overall success, viability and subsequent growth of these microcredit initiatives.

6. Globally, the number of poor clients reached by microfinance institutions has been growing and estimates by the Microcredit Summit Campaign, for example, indicate that in 2002 there were some 2,572 microfinance institutions serving about 67 million clients. Of this total, it is estimated that 41.6 million clients were among the poorest.[3]

C. Microcredit, microfinance and the achievement of the Millennium Development Goals[4]

7. There is a growing body of empirical evidence that supports the view that microcredit and microfinance can contribute to the achievement of the Millennium Development Goals, in particular the goal of poverty reduction. Over the last decade or so, a proliferation of supplementary studies has brought analytical rigour to the large body of existing anecdotal evidence that shows that, under the right conditions, access to financial services, particularly microcredit, enables poor people to increase their incomes, build assets and reduce their vulnerability to crises. The available evidence also suggests that microfinance clients, especially women, have been empowered to translate their increased incomes into investments in education, health, nutrition and better management of household emergencies.

Poverty reduction

8. The impact of microcredit and microfinance on poverty reduction has been measured in terms of several dimensions, such as improved income, employment and household expenditure, and reduced vulnerability to economic and social crises. For instance, in terms of income poverty, there is evidence that access to credit has given many poor people the means to increase, diversify and protect their sources of income. In addition, microfinance institutions in many parts of the world have reported improved food expenditures and employment opportunities among their clients.

9. For example, in Zimbabwe, participation in the Zambuko Trust increased the consumption of high protein foods among extremely poor client households.[5] In India, SHARE noted a marked shift in the employment patterns of its clients "from irregular, low-paid daily labour to diversified sources of earnings, increased

employment of family members, and a strong reliance on small business".[6] It appears that many poor people also benefit indirectly from the wider impacts of microfinance programmes. A study of six microfinance institutions in Africa provides examples, in South Africa, Uganda and Kenya, where microcredit provided to the non-poor helped to reduce poverty by drawing very poor people into the labour market as employees of microfinance clients.[7]

10. In addition, access to financial service such as loans, savings and insurance can provide poor people with a vital cushion in times of economic shock and natural disasters, as well as during sudden emergencies or periods of unemployment or crisis such as that created by a death in the family. Microfinance can also improve the household's risk management capacity through the enhancement of social capital, partly derived from training and capacity-building efforts.[8]

11. In general, it appears that clients who participate in microfinance programmes on a continuing basis eventually realize better economic outcomes than non-clients. In Bangladesh, for example, clients of the Bangladesh Rural Advancement Committee (BRAC) who participated in the programme for more than four years increased household expenditures by 28 per cent and assets by 112 per cent. In Ghana, 80 per cent of Freedom from Hunger clients had secondary income sources, compared with 50 per cent of non-clients.[9]

Education and health

12. Access to microcredit and microfinance has been found to promote increased expenditures on education and related improvements in health among poor clients and, in this respect, it can enhance human capital. A number of studies have shown that poor people tend to invest their income from microenterprise in their children's education, and that children of microfinance clients are more likely to go to school, stay in school longer and have lower dropout rates. In Honduras, participants in credit and savings programmes reported that their increased earnings and the availability of resources allowed them to send many of their children to school and reduce student dropout rates. In Uganda, it was observed that in more than half of client households, microenterprise revenues had been vital in financing the education of their children.[10]

13. Increased incomes from microenterprises can help clients pay for needed health-care services, can help smooth spending for health emergencies, and can also lead to investments to improve housing, water and sanitation. The Self-Employed Women's Association (SEWA) in India, for example, provides loans to upgrade community infrastructure such as tap water, toilets, drainage and paved roads. These outcomes have been promoted by some microfinance institutions that link their financial services to health education through immunization, safe drinking water and prenatal and post-natal care. There are also programmes that provide credit products for water, sanitation and housing.

14. Although the direct causality between microfinance services and improvement in health outcomes has yet to be empirically established, evidence in the field suggests that such a positive relationship might exist. For example, clients of Crédito con Educación Rural (CRECER) in Bolivia had better breastfeeding practices, responded more often with rehydration therapy for children with diarrhoea and had higher rates of diphtheria, pertussis and tetanus-third dose (DPT3) immunization for children. In other programmes, clients showed higher rates of

contraceptive use than non-clients as a result both of having attended group meetings among clients and of the increased mobility that enabled women to seek out services. In Uganda, 32 per cent of clients of the Foundation for Credit and Community Assistance (FOCCAS) microfinance programme had tried an AIDS prevention practice, twice the percentage of non-clients.[11]

Empowerment

15. Microfinance, under the right conditions, can promote the empowerment of poor people and has, in particular, catalysed opportunities for millions of poor women to become active participants in economic activities, and to attain new roles as cash income earners and managers of household incomes. With this new found access to financial services, poor women are found to be more confident, assertive and better equipped to overcome cultural inequalities. In addition, women's savings through microfinance often build significant economic power that can change attitudes and practices so as to enable communities to move from subsistence to market-based economies.

16. Microfinance has caused a shift in values and expectations that affect women's role in society. In Bangladesh, for example, women to whom credit had been extended had a much greater impact than other women on household consumption and quality of life for children. For instance, the former were more likely to send their daughters to school. Widowed, separated or divorced women, viewed as the most vulnerable group in Bangladesh society, are now seen to control their loans and have achieved significant advances in their capacity to engage in economic activity through microfinance.[12] Studies in Bolivia and Ghana carried out by Freedom from Hunger also suggest increased self-confidence among women and improved status within the community,[13] while in India, empowered SEWA clients have actively lobbied for higher wages, the rights of women in the informal sector and the resolution of neighbourhood issues.[14]

17. Women of microfinance groups have extended their activities beyond financial services to include community-based projects and peacemaking roles in times of conflict. In India, self-help groups of indigenous women manage community-based projects, such as contracting of minor irrigation construction and soil conservation works, and indigenous women's groups in a village in Andhra Pradesh have invested in electricity-generation. In north-eastern India, self-help groups in International Fund for Agricultural Development (IFAD)-funded projects play an important role in peacemaking in conflict-ridden communities.[15]

18. However, empowerment cannot be assumed to be an automatic outcome of microfinance programmes, especially given sociocultural settings where women are extremely "disempowered" to begin with. A number of researchers contend that their examination of credit programmes in Bangladesh, for example, reveals that loans made to women are not always used by women, and that men either significantly or partially control the credit women bring into the household. They also report increases in household tensions and domestic violence where women need to ask their husbands for loan instalments.[16] There were also cases in Bangladesh where men were users of more than 60 per cent of women's loans and where loans were used for purposes different from the ones applied for.[17] The lesson is that loans alone, without opportunities for women to transform the power

relations and create their own spaces in the prevailing power structure, make empowerment of women difficult to attain.

When microfinance and microcredit are less effective

19. Despite the many studies and reports documenting their positive contribution to poverty reduction, microcredit and microfinance constitute neither a panacea for poverty nor a formula for achieving social development. The reality is that microcredit and microfinance work best only in certain situations, and only with certain types of clients.

20. It is becoming clear that many poor — and especially extremely poor — clients exclude themselves from such microcredit or microfinance as is currently available to them. In general, microcredit programmes that typically require sustained, regular and often significant payments are unlikely to be attractive to, or financially viable for, poor families that lack sustained, regular and significant incomes. Rather than credit, these extremely poor people need social protection programmes that can help them with basic needs.

21. Microcredit seems to work best for people who have identified an economic opportunity and who would exploit that opportunity if they had access to a small amount of cash or credit. Thus, poor people who work in stable or growing economies, who have demonstrated an ability to undertake the proposed activities in an entrepreneurial manner, and who have demonstrated a commitment to repay their debts are the best candidates for microcredit.

D. Challenges

22. Overall, microfinance as a development tool is aligned with the paradigm shift away from provision of charity to poor people towards promotion of their sustainable access to financial services. Some key challenges for microcredit and microfinance are to create an enabling environment for the future development of the sector; to strengthen institutional capacity to provide sustainable access to financial services for poor people, including the poorest of the poor; and to promote financial sustainability, while avoiding "mission creep", so that as microfinance institutions develop and mature they do not lose their original goals and methods.

Reaching the poorest poor

23. There is still a large unmet demand for microcredit and microfinance, and an estimated 400-500 million poor and low-income people worldwide still do not have access to microfinance. Reaching the poorest poor will be a major challenge. For example, the Bangladesh Rural Advancement Committee in Bangladesh found that many of its microfinance clients were clustered around the poverty line. Besides, experience suggests that microfinance institutions also tend to favour clients who already have some business experience.

24. It had generally been assumed that the design of microfinance products — entailing small loan size, high interest rate, short loan duration, weekly repayments and dependence on mutual guarantees — would serve as a "self-selection" bias towards the poor. However, some studies suggest that even self-selected groups for peer-monitoring have not been inclusive of the poorest people.[18] Moreover, some

clients have difficulty with short-duration loans, especially if they are engaged in agriculture where their incomes are seasonal.

25. There are very poor people who could be better served with targeted assistance, or a combination of loans with assistance or capacity training skills. For example, the Income Generation for Vulnerable Group Development programme of the Bangladesh Rural Advancement Committee targets destitute rural women of Bangladesh who have little or no income earning opportunities. Food grain relief assistance that caters to their immediate consumption needs is accompanied by skills training and savings and credit services to build their development capacity. Hence, when the cycle of free food grain ends, participants are able to engage in income-generating activities and become clients of regular microfinance programmes, instead of having been burdened initially with debts that they cannot repay.

26. Depth of outreach therefore depends on content, flexibility, and terms and conditions of the microfinance programme. The poorer strata might be better served if a broader range of financial services were tailored to meet poor peoples' special needs. It is also important to design background interventions that build the market for microfinance clients. Such interventions can range from building infrastructure and opening up new markets for the produce of the poor to providing business development services. Often, it is these interventions that will create conditions and opportunities for microfinance and not the other way round.

Commercialization and sustainability

27. The growing commercialization of microfinance has been driven by at least two key developments. First, the funding sources of what were typically non-profit microfinance institutions have diminished and, as a result, a growing number of microfinance organizations that started as non-governmental organizations have been transformed into full-fledged for-profit organizations in order to access institutional capital and ensure their sustainability. For example, the Centre for Agriculture and Rural Development (CARD) in the Philippines[19] and BancoSol in Bolivia[20] have successfully made the transition from non-governmental organization to for-profit financial institution, while still maintaining their focus on providing for the needs of the poor.

28. Second, traditional financial institutions have realized the risk-adjusted profit potential of microfinance activities and are entering the microfinance market. Attracted by the success of microcredit — where repayment rates exceed those observed for traditional consumer loans — and the large untapped market, commercial banks have formed microfinance arms to tap this market niche. This growing commercialization and expansion of microfinance have led to the formation of an estimated 3,000 microfinance institutions worldwide. The expanding clientele due to population growth and the increasing incidence of poverty provides a large potential market for these institutions.

29. However, the growing commercialization of microfinance, and the increasing role of global financial institutions in the process, raise some concern that microfinance institutions may establish standards that can work against regional and ethnic diversity and the case-specific needs and characteristics of poor borrowers. The microfinance institutions therefore need to carefully balance their social mission against their need for financial viability and profitability.[21]

Role of Governments and the international community

30. Governments, donors and multilateral institutions have traditionally played a key catalytic role in microfinance initiatives where they have provided start-up funding, training and technical assistance. Governments have also provided incentives and support to commercial banks to encourage their development of microlending, and this will be an important continuing role for many Governments. A key constraint, especially in the least developed countries, continues to be the lack of local capacity to implement programmes, and this is where Governments and the international community can play a pivotal role — that of identifying, developing and supporting microfinance institutions that have the capacity to implement successful microfinance programmes.

31. It has been suggested that Governments should create an alternative institutional type that allows sound financial non-governmental organizations, credit unions and other community-based intermediaries to obtain a licence to offer deposit services to the general public and obtain funds through apex organizations, without endangering the integrity of the financial sector. However, in many countries, the general lack of development of the microfinance industry does not yet warrant the licensing of a separate class of financial institutions to serve poor people.

32. Rather, an important role for Governments and the international community is to promote better governance and accountability. In this regard, the Microfinance Consensus Guidelines on regulation and supervision of microfinance, adopted by the Consultative Group to Assist the Poor (CGAP),[22] may provide useful guidance. For example, regulators can work with microfinance institutions on generating credit information clearing houses to share information on defaulting borrowers so as to limit their ability to go from one microfinance institution to another, and on reporting requirements relating to costs, financial performance and impact. In addition to concern about financial sustainability, there is also interest among donors and the microfinance industry in applying the growing number of impact assessment tools that are readily available.

II. Preparations for the International Year of Microcredit, 2005

A. Introduction

33. In its resolution 53/197 of 15 December 1998, the General Assembly had proclaimed 2005 as the International Year of Microcredit and invited Governments, the United Nations system, relevant non-governmental organizations, the private sector and other actors to give enhanced recognition to the role of microcredit in the eradication of poverty, its contribution to social development and its impact on the lives of people living in poverty. In resolution 58/221 of 23 December 2003, the Assembly took note of the Programme of Action for the Year (see A/58/179) and invited the Department of Economic and Social Affairs of the United Nations Secretariat and the United Nations Capital Development Fund (UNCDF) to jointly coordinate the activities of the United Nations system with regard to the preparations for the observance of the Year. It also invited Member States to consider establishing national coordinating committees or focal points with responsibility for promoting the activities related to the Year.

34. This report provides information on the preparations at the national, regional and international levels for the observance of the Year, taking into account replies received from Member States[23] in response to the note verbale dated 31 December 2003 by the Secretary-General; and also includes responses from relevant organizations of the United Nations system[24] and non-governmental organizations.[25]

B. Institutional arrangements

35. In response to General Assembly resolution 58/221, a number of important steps have been taken to ensure that different initiatives at all levels are adequately supported. The Department of Economic and Social Affairs and UNCDF, as joint coordinators for the Year, have established a Coordinating Committee co-chaired by the Under-Secretary-General for Economic and Social Affairs and the Managing Director of UNCDF. This Committee, serviced by a small secretariat hosted by UNCDF, will focus its activities in four major areas: communication initiatives to build broad public awareness; special events; partner engagement; and substantive outcomes for the Year. In addition, a small group of patrons — composed of heads of State, public personalities and leading experts from Governments, non-governmental organizations, microfinance institutions and the private sector — will support the Coordinating Committee either as advisers, emissaries or spokespersons.

C. Communication and promotional activities

36. The Coordinating Committee has issued a concept paper that outlines key objectives of the Year and provides guidelines and recommendations on how Member States, organizations of the United Nations system and other partners can develop ideas for activities to observe the Year. The paper is available in several languages and has been widely distributed.[26]

37. An official logo, developed in collaboration with the Department of Public Information of the United Nations Secretariat, can be downloaded from the official web site for use by national coordinating committees and United Nations organizations in conjunction with the Year. The official web site — developed in collaboration with other partners, including the private sector — provides extensive information about the Year, its objectives and activities, and the calendar of national, regional and international initiatives. It features a range of interactive tools that invite feedback and e-discussions, and incorporates information ranging from quotable facts to more comprehensive distance-learning excerpts. Additional promotional tools, including a press kit, a brochure, a mobile modular exhibition, and a web-based image bank of photographs on the Year, will be produced to assist communication among the Coordinating Committee, national committees, United Nations organizations, and other actors. A limited quantity of these promotional materials will be distributed to national committees and United Nations organizations.

38. Other planned promotional initiatives include: (a) national micro-entrepreneur awards established by university students in collaboration with different microfinance organizations, the private sector, non-governmental organizations and United Nations organizations, to recognize micro-entrepreneurs who epitomize the achievement of social and economic empowerment through microfinance; (b) a

public service announcement featuring dignitaries and microfinance clients, which will be produced in collaboration with the private sector for broadcast on international networks so as to promote microfinance and micro-entrepreneurship; (c) the agreement by several serial drama production companies to graft the theme of micro-entrepreneurs onto their storylines; (d) a new bimonthly Web publication offering information about the Year that seeks to raise public awareness and share good practices and expertise on building inclusive financial sectors; and (e) an invitation to graduate students in business, international affairs, journalism and other relevant disciplines to serve as "Student Ambassadors" for the Year; and the promotion of student networks established to maximize outreach to the next generation of microfinance practitioners.

39. Work is under way to identify the key constraints on, and opportunities for, microfinance and to recommend critical steps for countries to take to develop sustainable, inclusive financial sectors and to build strategies that position microfinance as an integral part of a country's financial system. This "Blue Book" will be an outcome of a global outreach and multi-stakeholder consultations undertaken in partnership with the Financing for Development Office of the Department of Economic and Social Affairs. A small group of experts will examine how to improve the collection and reporting of basic data on microfinance on an ongoing basis. The International Monetary Fund (IMF), the World Bank, the International Finance Corporation (IFC), the Department for International Development, United Kingdom of Great Britain and Northern Ireland, and Citigroup will be involved in this initiative. The main findings of this research effort will be published in an international economic or financial journal.

40. The official launch of the Year will take place at United Nations Headquarters on 18 November 2004 and the programme will include round-table discussions, a press conference and the screening of a documentary film about microenterprises. The round tables will focus on overcoming constraints impeding the growth and sustainability of the microfinance sector, and on establishing effective strategies to develop inclusive pro-poor financial sectors that can contribute to the achievement of the Millennium Development Goals. Participants will include dignitaries and high-level representatives of Governments, United Nations organizations, the microfinance community, the private sector and non-governmental organizations. The winners of the national micro-entrepreneur awards and microfinance clients will launch the Year by ringing the "opening bells" at stock exchanges around the world.

D. National activities

41. Pursuant to General Assembly resolution 58/221 and in accordance with the guidelines for the observance of international years adopted by the Economic and Social Council,[27] the Secretary-General encouraged Member States to establish national coordinating committees or focal points to lead the preparations for, and implementation of, national activities related to the Year. Several countries, such as Luxembourg, Madagascar, Mongolia and South Africa, have established multi-stakeholder national coordinating committees or interim secretariats.

42. Advocacy activities to promote the objectives of the Year and improve public awareness and knowledge regarding microcredit and microfinance are being planned

in a number of countries. Austria and Bulgaria plan to conduct an information campaign on the benefits and challenges of microfinance and the opportunities that it presents to small and medium-sized businesses. In Croatia, public initiatives are planned to increase awareness of how microcredit enables community development at all levels and strengthens capacity-building, especially in low-income areas. In Germany, activities will focus on the interlinkages between microfinance and economic development. In collaboration with civil society organizations, the German Ministry of Economic Cooperation and Development is planning a number of activities, including joint high-level events involving relevant implementing agencies, the Federal Ministries and banking institutions; a meeting on "New partnerships for innovation in microfinance" together with an international organization; and an exhibition on microfinance. To generate awareness-building, Madagascar plans to engage all relevant actors and organize a national event under the theme "Overcoming poverty through microcredit". In Mauritania, the promotional initiative is targeting rural and semi-urban areas as well as workers, particularly women who have been laid off from the economic-processing zones in the textile industry. The envisaged activities include radio and television programmes on specific topics pertaining to the management and development of microenterprises, group discussions and the creation of a directory of microentrepreneurs, the organization of a microcredit award together with an exhibition of the best work of microcredit/microenterprise beneficiaries, and the convening of a national forum on the challenges facing microcredit development.

43. Mongolia plans to organize official launching and closing ceremonies for the Year and will undertake a promotional drive through branches of microfinance institutions, television shows, newspaper articles, advertisements and monthly news, as well as the sharing of experiences. In the Netherlands, the Netherlands Microfinance Platform will act as the national focal point leading the preparations and implementations related to the year. The activities will provide an emphasis on attracting new participants into the microfinance sector, the transference of know-how and expertise and the strengthening of partnerships between institutions within the Netherlands as well as partnerships with institutions in developing countries. Nigeria plans to hold a national microcredit conference in 2005 to commemorate the Year, and will launch local campaigns to solicit the support of local government and the private sector for the microfinance sector. There are plans to establish a central bank-donor community microfinance consultative forum that will harmonize and focus donor community support for microfinance projects in the country. In Pakistan, a number of planned events will build on the microfinance and rural finance policy of 2000. These will include summits, meetings and seminars on microfinance throughout the year, as well as a message from the President highlighting microfinance as a major poverty reduction tool.

44. South Africa envisages holding exhibitions, competitions and conferences throughout the country. The holding of a seminar in Pretoria is planned including the participation of the departments of economic development and tourism from nine provinces. At the seminar, the challenges faced by microfinance institutions will be addressed and success stories and best practices will be shared. Togo intends to disseminate information through the mass media about the important role of microfinance in poverty eradication and plans to organize a series of seminars and meetings on microfinance institutions and microfinance. Venezuela plans to issue a special publication on microcredit, increase the amount of microcredit available to

vulnerable groups, including indigenous communities, and organize awareness-raising initiatives to promote the Year. The State Industrial Bank of Venezuela has dedicated about $65 million to financing microenterprises in 2005.

45. Member States also reported initiatives to promote sustainable pro-poor financial sectors. Angola plans a number of activities, including an evaluation of microfinance initiatives, capacity-building to standardize relevant procedures, and a national meeting on microcredit. Austria will continue to strengthen microfinance institutions in developing countries through expanding outreach, and improving services and efficiency, as well as supporting local, regional and international microfinance networks. Grenada is preparing a programme of action for the Year and there are efforts under way to integrate all Government-controlled microcredit financing institutions under one central umbrella body. Mongolia intends to convene a second national microcredit meeting in 2005 and plans are also under way to establish microentrepreneur awards, create a database of microcredit services, and conduct training programmes for microenterprises and students of universities and colleges.

46. In South Africa, planned activities will emphasize capacity-building and training through the organization of workshops for young people, women and students. Togo is in the process of formulating a national strategy for microfinance for 2004-2008, which aims to create a viable and sustainable microfinance system that is integrated into the financial sector, develop institutional, regulatory and legal frameworks, and expand services and products. In Turkey, a proposed bill on microfinance institutions aims to establish a legal framework and a streamlining of the functions of various stakeholders in this area as well as regulating principles for the operation of microfinance institutions with respect to providing financial assistance to microentrepreneurs. A conference will be held with the participation of microfinance institutions and relevant national and international organizations after the entry into force of this bill. A number of projects targeting the poorest of the poor and women are being implemented, including the "Turkey Grameen microcredit project".

47. Norway and Sweden intend to carry out activities for the Year through their membership in CGAP, namely, a microfinance peer review process focusing on aid effectiveness and harmonization, drafting updated donor guidelines on financial services for the poor, and undertaking financial case studies. The Norwegian Development Network, a consortium of Norwegian non-governmental organizations, is planning concrete initiatives to promote the Year. The Swedish International Development Cooperation Agency (SIDA) has recently produced its new microfinance guidelines and intends to disseminate them widely during 2004 and 2005 so as to ensure high quality and a further expansion of Sweden's support to microfinance. SIDA is considering making funds available for the Swedish Microfinance Network, a consortium of Swedish non-governmental organizations working in microfinance, to support activities on raising public awareness and knowledge about microfinance.

48. Several countries also highlighted their past and ongoing activities in the area of microcredit and microfinance. Angola noted that its National Microcredit Programme is aimed at contributing to poverty reduction through sensitizing and promoting awareness among target groups about the opportunities offered by microcredit, in particular self-employment, and maintaining an inventory of

entrepreneurial initiatives. The Ministry of Family and Promotion of Women, together with other partners, is responsible for executing the programme that finances small-scale commercial, agricultural and fishing activities whose beneficiaries are mostly women. An ad hoc forum has been created to address best practices and experiences. In Croatia, a number of currently active microcredit programmes target low-income people and other vulnerable groups, and provide loans for both working capital and small investments. In Zambia, the Government has initiated measures to strengthen the regulatory framework in which microfinance institutions operate and create an enabling environment for a better-regulated sustainable microfinance sector. A number of activities are planned, many of them focusing on the development of the microfinance and rural banking sector. Further initiatives include the inclusion of microfinance in all development and poverty reduction programmes, legal reforms aimed at facilitating the growth of the sector, and a promotional drive that includes a microfinance week and a national microfinance summit.

49. The French Development Agency and the Ministry of Foreign Affairs have been involved in microfinance projects and contributed to a number of microfinance institutions in Africa since the beginning of the 1980s. French policy and action involve capacity-building of microfinance institutions, development of partnerships, increasing the collaboration between microfinance institutions and banks, and strengthening of the institutional and professional environment of the microfinance sector. In addition to continuing its present work, the Ministry of Foreign Affairs intends to contribute to a further strengthening of the microfinance sector, especially in countries emerging from crises. In Kazakhstan, the microcredit programme for low-income people adopted in 1998 aims at reducing poverty and unemployment, promoting self-employment and developing entrepreneurship. Several laws on microcredit organizations were adopted in 2003 to promote access of entrepreneurs to financial resources.

50. In Luxembourg, the National Committee will focus on the harmonization of microfinance at the European level, awareness-raising in the banking sector, and financing for the agricultural sector. An inventory of competencies and priority themes will be undertaken and presented at a workshop in 2005 where the principal themes for European microfinance actors will be identified. There are plans for a workshop in Luxembourg in 2005 on the financing of the agricultural sector. The Government of Mali had adopted in 1998 a national strategy and plan of action for the development of microfinance as a priority instrument in the struggle against poverty. The plan of action was structured around the State's disengaging itself as a technical operator of microfinance institutions while strengthening their institutional capacities and developing and securing their refinancing. The plan identified specific vulnerable social groups and geographical areas of importance and set a target of reaching a microfinance clientele of 560,000 by the year 2002. During the period covered by the plan of action, microfinance institutions reached a considerable part of the Malian population. The number of microfinance institution service points grew by 39 per cent and reached about 800,000 direct or indirect borrowers. Monaco, which has appointed a national focal point for the Year, finances a programme with the United Nations Development Programme (UNDP) support that focuses on increasing the access of municipalities in a number of African countries to new technology and information in respect of microcredit, and reducing poverty among the cities' vulnerable groups, notably women, through the

promotion of self-managed credit. Pakistan developed a rural finance and microfinance policy in 2000 in order to develop pro-poor financial systems and address the widespread lack of access to financial services. This has entailed the facilitation of the establishment of the Khushali Bank, which has provided over 130,000 loans and has the target of reaching 1 million customers by 2006. Legal and regulatory framework arrangements have been made to ensure the mainstreaming of microfinance, including encouraging private sector involvement. The Federal Government of Nigeria has a number of initiatives both planned and already in place that focus on the provision of microfinance services to the poor, low-income groups and microentrepreneurs. In this regard, the Central Bank of Nigeria developed microfinance policy and regulatory guidelines in 2003. To assist it in microfinance policy formulation, and implementation and monitoring of activities in the sector, the Bank will establish a national microfinance policy consultative committee in 2004. In addition, the Bank will establish a microfinance support unit to monitor and assess developments in the microfinance sector and a databank on microfinance activities in order to create performance standards for microfinance institutions and to facilitate policy implementation, and collaboration with and linkage to conventional banks.

E. Activities of the United Nations system

United Nations Secretariat

51. In addition to its activities as Joint Coordinator of the Year, the Department of Economic and Social Affairs highlighted several planned events in 2005: an expert group meeting and a youth round table on "Microcredit/Microfinance and poverty reduction" in June, in collaboration with the Youth Employment Network, the Economic and Social Commission for Asia and the Pacific (ESCAP) and other partners; an event highlighting the role of cooperatives in promoting microcredit for poverty reduction to mark the International Day of Cooperatives on 2 July; and an event highlighting the contribution of microcredit to poverty eradication to mark the International Day for the Eradication of Poverty on 17 October.

52. As follow-up to and implementation of the outcome of the International Conference on Financing for Development, the Financing for Development Office of the Department of Economic and Social Affairs is organizing several multi-stakeholder consultations on "Building an inclusive financial sector for development" which will contribute to the development of the aforementioned Blue Book.

53. The Office of the Special Adviser on Africa emphasizes that it conceives microfinance not only as a tool for the eradication of poverty, but also in the wider context of other societal problems. Microfinance must therefore contain health habit-changing educational components with an emphasis on HIV, especially in Africa, and must be designed for creating employment for youth, and for economic empowerment, as well as for conflict prevention.

Regional commissions

54. The Economic Commission for Africa (ECA) plans to undertake a review and analysis of microcredit and microcredit institutions in Africa. The analysis will highlight good practices and identify the opportunities available to, and the obstacles faced by, these institutions in their efforts to achieve the Millennium Development Goals. ECA also envisages the proclamation of a microcredit and microfinance day in 2005, possibly in collaboration with the African Union, during which the above study could be presented and widely disseminated.

55. The Economic and Social Commission for Asia and the Pacific (ESCAP) plans to incorporate the topic of microcredit into a study entitled "Implementing the Monterrey Consensus in the Asia-Pacific region: achieving coherence and consistency" to be presented to the Commission at its sixty-first session in 2005. ESCAP is also exploring the possibility of holding an event during the meeting of one of the Intergovernmental Thematic Committees with the involvement of civil society. The Economic and Social Commission for Western Asia (ESCWA) has issued a number of publications on the role of microcredit in poverty alleviation and the targeting of poor women in urban and rural areas in selected Arab countries. ESCWA also implements microcredit schemes for capacity-building of local communities and intends to continue these projects.

Organizations of the United Nations system

56. The Food and Agriculture Organization of the United Nations (FAO) will focus on the importance of microfinance in support of agricultural and rural development and, through the network of regional agricultural and rural credit associations, will support regional workshops on good rural finance practices. Attention will be given to widely promoting the Rural Finance Learning Centre, a new Internet-based resources centre being developed by FAO jointly with a number of international partners and aimed at contributing to the development of sustainable financial services in rural areas. FAO also proposes to promote good banking practices in rural areas and improved mechanisms for small-scale-farmers through the preparation of a set of guidance notes on finance and farmers. In addition, a major focus will be on analysing and documenting an emerging trend involving linkages between the formal financial sector and rural and microfinance institutions. In 2005, World Food Day will adopt the theme "Rural credit for food security".

57. The International Fund for Agricultural Development (IFAD) will organize a pre-launch event in Rome on 15 November 2004 and, in partnership with the Italian rating agency Microfinanza, a one-day event at the Stock Exchange in Milan, on 18 November 2004. These events are intended to sensitize Governments, donors and microfinance practitioners to the growing role of commercial banks in microfinance, thereby helping to disseminate lessons from the field. IFAD also plans to support the harmonization of reporting requirements in partnership with the Microfinance Information eXchange so as to increase the access of its rural finance partners to this Web-based reporting system. IFAD will share with donors and practitioners the outcomes of its research agenda on agriculture microfinance which was developed jointly with CGAP. In addition, IFAD plans to support the FAO Improving Capacity-Building in Rural Finance (CABFIN) initiative and to disseminate donor best practices by developing a series of operational tools on key issues related to

microfinance. Finally, IFAD plans to implement a communications programme that will include media relations, advocacy and other initiatives.

58. At its eleventh session in June 2004, the United Nations Conference on Trade and Development (UNCTAD) held an international forum on e-commerce and e-finance for small and medium-sized enterprises (SMEs) to analyse emerging techniques and modalities in the area of e-finance and address appropriate frameworks for developing new online solutions for credit information and risk management in order to ensure better access by SMEs to trade finance and e-finance. UNCTAD also envisages the launch of a public and private partnership in this field involving financial services providers, enterprises, public authorities, and regional and international development organizations.

59. The United Nations Development Programme (UNDP) will highlight the Year on its web site and disseminate information on the Year through appropriate channels. Country office staff will be encouraged to engage with national committees for the Year; and the relevant UNDP staff will be encouraged to share experience on how to successfully build inclusive financial sectors, and to lend input and experience to knowledge networks, discussion groups, forums and think tanks. In addition, UNDP has agreed to a thorough review of its microfinance portfolio by CGAP which, with support from UNCDF and UNDP, will implement a programme countries-wide survey on the status of UNDP microfinance initiatives.

60. The United Nations Population Fund (UNFPA) intends to implement a project together with other partners on the "Contribution of microfinance to women's empowerment and health". The overall purpose is to provide microfinance institutions with tools and products needed to reach poor clients, especially women, and enable them to combine microfinance with the achievement of health education, child survival and HIV/AIDS prevention.

61. The United Nations Human Settlements Programme (UN-Habitat) has undertaken several projects and programmes to promote microcredit for self-employment and income-generating activities and for upgrading low-income housing in selected cities in East Africa. In order to sensitize all stakeholders to the importance of using microcredit as a tool for generating self-employment and other income-generating activities and in the upgrading of houses, a workshop focusing on East Africa will be held on 25 November 2004. The United Nations Industrial Development Organization (UNIDO) is working on the initiative entitled "Financial services for small enterprises" to provide technical assistance in support of access to credit for small enterprises, and private industries, and foster a conducive environment to be created by local institutions. As part of this initiative, a project on SME development through establishment of mutual credit guarantee schemes in selected countries has been prepared. Another programme on "Migration and development" promotes SMEs and other forms of entrepreneurial cooperation targeting migration, rural development and transfer of technology as well as the developing of a financial strategy to help new investors benefit from different financial alternatives such as microcredit and mortgage loans.

62. The World Bank will pursue a number of activities guided by the fundamental principle of developing financial systems that work for the poor. It will continue its analytical and policy work, increasing its knowledge base and providing policy recommendations to client countries. Efforts will be made to further elaborate methods and indicators to measure the degree to which the poor have access to

financial systems in order to ensure that Country Assistance Strategy and Poverty Reduction Support programmes reflect the conditions of low-income people and small businesses as linked to their need for financial services. The Bank will finance projects in numerous client countries aimed at engendering sustainable expansion of access to financial services. In 2005, projects devoted to increasing broad-based participation in the financial system are expected to receive Bank funding in India, Indonesia, Nicaragua, Mexico, Central Africa, Madagascar and the United Republic of Tanzania, among others. In addition, a number of activities are planned to disseminate knowledge gained from these projects, related to policies that expand the reach of financial systems. The World Bank Institute will sponsor distance learning for policy makers and members of civil society in addition to a series of learning events focusing on issues implementing specific policies and improving the availability and terms of credit, savings, insurance and payment services, including remittance payments in Bank client countries.

63. The International Labour Organization (ILO) looks at finance from a social viewpoint, attaching equal weight to the functioning and performance of financial systems, and their effects on workers, entrepreneurs and the poor. While advocating for an inclusive financial sector, ILO focuses on the limited absorptive capacity of many poor households with respect to credit and the risks of debt; the use of debt bondage in many parts of the world; the social impact of financial sector liberalization; and gender bias with respect to access to the financial market. ILO promotes equity in access to markets and assets, and favours mutual- and self-help organizations.

F. Activities of other partners

64. A large number of partners are actively engaged in the activities preparatory to observing the Year. For example, ACCIÓN International and the ACCIÓN Network, a microfinance institution, in collaboration with its MicroFinance Network, plan to: conduct outreach on the best practices in microfinance in various countries; promote the objectives of the Year on their web site; encourage involvement of microfinance networks in different regions; create an ACCIÓN/Citibank microentrepreneur prize in Latin America; undertake speaking engagements at meetings and other forums of commercial banking institutions about the opportunities of microfinance; and launch an ACCIÓN collection of objects made by microenterprise clients at Eziba, a leading purveyor of handmade items around the world.

65. Microfinance constitutes a significant part of the programmes of many Oxfam International affiliate organizations with their emphasis on justice and poverty reduction, innovative products to reduce vulnerability, gender analysis, and partnerships. Oxfam Great Britain focuses its activities on developing microfinance interventions in post-conflict situations, analysing the role of women and men in family finances, providing technical assistance and support to cooperative businesses and small producers, and publishing various books on microfinance. Novib (Oxfam Netherlands) targets emerging microfinance institutions and supports vulnerable groups, including people living in remote areas.

66. Efforts have also been directed towards mobilizing the collaboration of various partners, including the United Nations Foundation and members of the private sector, namely, Citigroup and ING, which are also providing funding for the Year.

III. Recommendations

67. The expansion and evolution of microcredit and microfinance services provide important opportunities to extend financial services to more poor people. In view of their important potential contribution to efforts to achieve the Millennium Development Goals, in particular the goal of halving the proportion of people in extreme poverty by 2015, the General Assembly may wish to consider the following recommendations:

(a) Encourage Governments to undertake policies to facilitate the expansion of microcredit and microfinance institutions in order to service the large unmet demand among poor people for financial services, including the identification and development of mechanisms to promote sustainable access to financial services; the removal of institutional and regulatory obstacles; and the provision of incentives to microfinance institutions that meet established standards for delivering such financial services to the poor;

(b) Also encourage Governments to develop and promote regulatory guidance and standards to ensure good governance and accountability among microfinance institutions, taking into account, where appropriate, guidelines such as the Guiding Principles on Regulation and Supervision of Microfinance adopted by CGAP, and to promote the wider dissemination of databases of successful practices among microcredit and microfinance institutions;

(c) Further encourage Governments to promote awareness and the availability of consumer information, so as to allow clients to make informed decisions and choices of services/products.

68. Although considerable progress has been made since the adoption of General Assembly resolution 58/221, there is still a need for more focused preparations, particularly in terms of efforts and initiatives at the national level. In this regard, the Assembly may wish to consider the following recommendations:

(a) Renew its invitation to Member States to establish national coordinating committees or focal points to promote and coordinate activities and initiatives at the national level, and invite relevant organizations of the United Nations system, non-governmental organizations and other stakeholders to link their microcredit and microfinance activities and initiatives to the Year and to consider establishing new partnerships;

(b) Devote two plenary meetings, at its sixteenth and sixty-first sessions, to the consideration of the outcome and the follow-up of the Year, respectively, with a view to broadening and deepening the discussion of this important issue among Member States, the United Nations system and other stakeholders;

(c) Promote the observance of the Year not as an isolated event but as part of a continuing process of advocacy and partnership to foster and provide greater access to microcredit and microfinance by poor people.

Notes

[1] United Nations publication, Sales No. E.99.II.C.1.

[2] The best known example is the Grameen Bank in Bangladesh.

[3] See Sam Daley-Harris, *The State of the Microcredit Summit Campaign Report 2003* (Washington, D.C.), introduction.

[4] This section draws upon E. Littlefield, J. Morduch and S. Hashemi, "Is microfinance an effective strategy to reach the Millennium Development Goals?", Consultative Group to Assist the Poor (CGAP) Focus Note, No. 24 (Washington, D.C., 2003); and Jonathan Morduch and Barbara Haley, *Analysis of the Effects of Microfinance on Poverty Reduction*, New York University Wagner Working Paper, No. 1014 (Hull, Quebec, Canadian International Development Agency, 2002).

[5] Littlefield, Morduch and Hashemi, op. cit.

[6] Ibid.

[7] Paul Mosley and June Rock, "Microfinance, labour markets and poverty in Africa: a study of six institutions", *Journal of International Development*, vol. 16 (2004), pp. 467-500.

[8] Ibid.

[9] Littlefield, Morduch and Hashemi, op. cit.

[10] Ibid.

[11] Ibid.

[12] D. Hulme and P. Mosley, "Finance for the poor or poorest? financial innovation, poverty and vulnerability", in *Who Needs Credit? Poverty and Finance in Bangladesh*, Geoffrey D. Wood and Iffath A. Sharif, eds. (Dhaka, The University Press, Ltd., 1996), pp. 120-121.

[13] Barbara MkNelly and Mona McCord, "Credit with Education Impact Review No. 1: Women's Empowerment" (Freedom from Hunger, 2001), available from http://www.ffhtechnical.org/publications/pdfs/cweimpactrevu1oct01.pdf (accessed 29 September 2004).

[14] See http://www.sewa.org/campaigns/index.htm.

[15] Hulme and Mosley, loc. cit.

[16] A. Goetz and R. Sen Gupta, "Who takes the credit? gender, power and control over loan use in rural credit programmes in Bangladesh", *World Development*, vol. 24, No. 1 (1996), pp. 45-63; and A. Rahman, "Micro-credit initiatives for equitable and sustainable development: who pays?" *World Development*, vol. 27, No. 1 (January 1999), pp. 67-82.

[17] Rahman, loc. cit.

[18] S. Johnson and B. Rogaly, *Microfinance and Poverty Reduction* (Oxford, United Kingdom, Oxfam, 1997).

[19] David Gibbons and Jennifer W. Meehan, "The Microcredit Summit challenge: working towards institutional financial self-sufficiency while maintaining a commitment to serving the poorest families", available from www.microcreditsummit.org/papers/papers.htm (accessed 29 September 2004).

[20] James Cerven and S. M. Ghazanfar, "Third World microfinance: challenges of growth and possibilities for adaptation", *The Journal of Social, Political, and Economic Studies* (winter, 1999), vol. 24, No. 4.

[21] Ibid.

[22] Robert Peck Christen, Timothy R. Lyman and Richard Rosenberg, *Microfinance Consensus Guidelines: Guiding Principles on Regulation and Supervision of Microfinance* (Washington, D.C., CGAP/World Bank, 2003).

[23] Angola, Austria, Bulgaria, Croatia, France, Germany, Grenada, Kazakhstan, Luxembourg, Madagascar, Mali, Mauritius, Monaco, Mongolia, the Netherlands, Nigeria, Norway, Pakistan, South Africa, Sweden, Togo, Turkey, Venezuela and Zambia.

[24] Economic Commission for Africa (ECA), Economic and Social Commission for Asia and the Pacific (ESCAP), Economic and Social Commission for Western Asia (ESCWA), Food and Agriculture Organization of the United Nations (FAO), International Fund for Agricultural Development (IFAD), International Labour Organization (ILO), United Nations Conference on Trade and Development (UNCTAD), United Nations Population Fund (UNFPA), United Nations Centre for Human Settlements Programme (UN-Habitat), United Nations Industrial Development Organization (UNIDO) and World Bank.

[25] ACCIÓN and Oxfam.

[26] The concept paper is available from http://www.uncdf.org. Path: UN Year of Microcredit 2005 (accessed 29 September 2004).

[27] As contained in the annex to Economic and Social Council resolution 1980/67 of 25 July 1980.